

**HOUGHTON COUNTY MEDICAL
CARE FACILITY
Financial Statements as of
September 30, 2004 and 2003**

AUDITING PROCEDURES REPORT

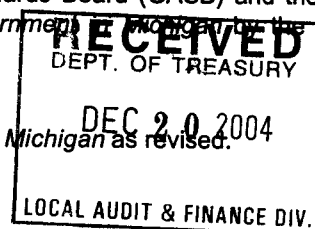
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| | | | |
|---|---------------------------------|---|---------------------------|
| Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other | | Local Government Name <u>Houghton County Medical Care Facility</u> | County <u>Houghton</u> |
| Audit Date <u>9/30/04</u> | Opinion Date <u>11/18/04</u> | Date Accountant Report Submitted to State: <u>12/20/04</u> | |

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government*, as required by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.



We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

| | Enclosed | To Be Forwarded | Not Required |
|---|----------|-----------------|--------------|
| The letter of comments and recommendations. | | | ✓ |
| Reports on individual federal financial assistance programs (program audits). | | | ✓ |
| Single Audit Reports (ASLGU). | | | ✓ |

| | | | |
|--|--------------------------|--------------------|---------------------|
| Certified Public Accountant (Firm Name) <u>Anderson, Tackman & Co. PLLC</u> | | | |
| Street Address <u>102 W. Washington, Suite 109</u> | City <u>Marquette</u> | State <u>MI</u> | ZIP <u>49855</u> |
| Accountant Signature <u>Rebecca Hill, CPA</u> | | | |

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ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

JOHN W. BLEMBERG, CPA

ROBERT J. DOWNS, CPA, CVA

DANIEL E. BIANCHI, CPA

MICHIGAN
ESCANABA
IRON MOUNTAIN
KINROSS
MARQUETTE

WISCONSIN
GREEN BAY
MILWAUKEE

INDEPENDENT AUDITORS' REPORT

Board of Directors
Houghton County Family Independence Agency

We have audited the statement of net assets of the Houghton County Medical Care Facility, an enterprise fund of the County of Houghton as of September 30, 2004 and 2003, and the related statement of revenues, expenses, and changes in net assets and statement of cash flows for the years then ended. These financial statements are the responsibility of the Medical Care Facility's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Houghton County Medical Care Facility at September 30, 2004 and 2003, and the changes in its financial position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 18, 2004 on our consideration of the Facility's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit. This report can be found on pages 26 and 27.

The management's discussion and analysis on pages 5 through 8 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the table of contents as other financial information are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic statements taken as a whole.

Anderson, Tackman & Company, PLC
Certified Public Accountants

November 18, 2004

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the Houghton County Medical Care Facility's financial performance provides an overview of the Facility's financial activities for the year ended September 30, 2004. Please read it in conjunction with the financial statements, which begin on page 9.

FINANCIAL HIGHLIGHTS

- Net assets for the Facility as a whole were reported at \$12,873,185 and \$12,539,173, as of September 30, 2004 and 2003, respectively. Net assets are comprised of 100% business-type activities.
- During the year, the Facility's total expenses were \$12,810,096, while revenues from all sources totaled \$13,144,108 resulting in an increase in net assets of \$334,012.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets (on pages 9 and 10) provide information about the activities of the Facility as a whole and present a longer-term view of the Facility finances.

Reporting the Facility as a Whole

One of the most important questions asked about the Facility's finances is "Is the Facility as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets report information about the Facility as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the Facility's *net assets* and changes in them. You can think of the Facility's net assets - the difference between assets and liabilities - as one way to measure the Facility's financial health, or *financial position*. Over time, *increases or decreases* in the Facility's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the Facility's resident base and the condition of the Facility's capital assets, to assess the *overall financial health* of the Facility.

In the Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets, we report all of the Facility's activities as business-type activities because the Facility charges a fee to residents to help it cover the cost of services it provides and the Facility is reported as an enterprise fund of the County of Houghton, Michigan.

The Facility as a Whole

Table I provides a summary of the Facility's net assets as of September 30, 2004 and 2003.

County of Houghton, Michigan
Houghton County Medical Care Facility

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)

Table 1
Net Assets

| | 2004 | 2003 |
|----------------------------|---------------------|---------------------|
| Current and other assets | \$7,432,685 | \$7,886,677 |
| Capital assets, net | <u>6,981,557</u> | <u>6,085,357</u> |
| Total Assets | <u>14,414,242</u> | <u>13,972,034</u> |
| Current liabilities | <u>1,541,057</u> | <u>1,432,861</u> |
| Total Liabilities | <u>1,541,057</u> | <u>1,432,861</u> |
| Net Assets: | | |
| Invested in capital assets | 6,981,557 | 6,085,357 |
| Unrestricted | <u>5,891,628</u> | <u>6,453,816</u> |
| Total Net Assets | <u>\$12,873,185</u> | <u>\$12,539,173</u> |

Net assets of the Facility's business-type activities stood at \$12,873,185. Unrestricted net assets—the part of net assets that could be used to finance day-to-day activities stood at \$5,891,628.

The \$5,891,628 in unrestricted net assets represents the accumulated results of all past years' operations. The results of this year's operations for the Facility as a whole are reported in the Statement of Revenues, Expenses and Changes in Net Assets (see Table 2), which shows the changes in net assets for fiscal years 2004 and 2003.

Table 2
Changes in Net Assets

| | 2004 | 2003 |
|---|---------------------|---------------------|
| Operating revenues: | | |
| Net patient service revenues | \$11,294,600 | \$11,392,704 |
| Other operating revenues | <u>20,654</u> | <u>23,768</u> |
| Total Operating Revenues | <u>11,315,254</u> | <u>11,416,472</u> |
| Operating expenses: | | |
| General and administrative | 3,379,922 | 3,388,927 |
| Nursing services | 5,015,613 | 4,775,983 |
| Other expenses | 3,455,990 | 3,342,048 |
| Depreciation | <u>497,697</u> | <u>371,970</u> |
| Total Operating Expenses | <u>12,349,222</u> | <u>11,878,928</u> |
| Income (loss) from Operations | <u>(1,033,968)</u> | <u>(462,456)</u> |
| Nonoperating Revenues (Expenses): | | |
| Property taxes and other | 1,332,047 | 1,301,044 |
| Proportionate share reimbursement, net of | | |
| Intergovernmental transfer expense | 490,175 | 344,833 |
| Maintenance of effort | (460,874) | (532,426) |
| Other | <u>6,632</u> | <u>5,823</u> |
| Total Nonoperating Revenues (Expenses) | <u>1,367,980</u> | <u>1,119,274</u> |
| Increase (decrease) in net assets | 334,012 | 656,818 |
| Net assets, beginning | 12,539,173 | 11,985,789 |
| Prior period adjustment | - | (103,434) |
| Net Assets, Ending | <u>\$12,873,185</u> | <u>\$12,539,173</u> |

County of Houghton, Michigan
Houghton County Medical Care Facility

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)

The Facility's total revenues were \$13,144,108. The total cost of all programs and services was \$12,810,096, leaving an increase in net assets of \$334,012 as a result of fiscal year 2004 operations. The fiscal year 2004 increase in net assets is primarily due to nonoperating gains, specifically intergovernmental transfers and property tax revenue.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2004, the Facility had \$6,981,557 invested in a variety of capital assets including land, buildings, and other equipment. (See table 4 below)

Table 4
Capital Assets at Year-End

| | 2004 | 2003 |
|---------------------------|--------------------|--------------------|
| Land and improvements | \$ 13,827 | \$ 13,827 |
| Buildings | 10,446,861 | 6,836,363 |
| Equipment and furnishings | 2,707,290 | 2,701,672 |
| Work in progress | <u>53,728</u> | <u>2,275,947</u> |
| | 13,221,706 | 11,827,809 |
| Accumulated depreciation | <u>(6,240,149)</u> | <u>(5,742,452)</u> |
| Totals | <u>\$6,981,557</u> | <u>\$6,085,357</u> |

Capital plans for FY2005 include completion of \$3.7 million renovation to the Facility which began in February 2002.

Debt

The Facility has no outstanding debt at year-end.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The Facility's appointed officials consider many factors when setting the fiscal year 2005 budget. One of those factors is the economy. The Facility is heavily dependent on Medicaid revenue. With the current budget constraints faced by the state and national government, the Facility can expect very little in enhanced Medicaid revenue. The FY2005 Medicaid rate was not finalized when the budget was prepared and is also subject to mid-year adjustments. On the expense side, significant increases in health and liability insurance and utilities will negatively impact operating income.

The Facility will closely monitor developments in the Medicaid rate setting process and adjust the budget accordingly.

County of Houghton, Michigan
Houghton County Medical Care Facility

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)

CONTACTING THE FACILITY FINANCIAL MANAGEMENT

This financial report is designated to provide our taxpayers, investors and creditors with a general overview of the Facility's finances and to show the Facility's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Facility Administrator at Houghton County Medical Care Facility, 1100 Quincy Avenue, Hancock, Michigan, 49930.

Houghton County Medical Care Facility
Statement of Net Assets
September 30, 2004 and 2003

| | <u>2004</u> | <u>2003</u> |
|--|----------------------|----------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 3,176,237 | \$ 3,145,447 |
| Internally designated cash: | | |
| Replacement of capital assets | 1,815,892 | 1,983,057 |
| Workers compensation contingency | 387,500 | 285,000 |
| Total Cash and Cash Equivalents | <u>5,379,629</u> | <u>5,413,504</u> |
| Resident trust - cash | 3,822 | 3,722 |
| Accounts receivable: | | |
| Private insurance and self-pay | 208,377 | 298,596 |
| Medicare | 49,907 | 153,908 |
| Medicaid | 697,622 | 810,258 |
| Other | 46,888 | 39,546 |
| Allowance for doubtful accounts | (132,074) | (200,000) |
| Other receivables: | | |
| Taxes receivable (net allowance of \$10,000) | 255,907 | 487,502 |
| Due from State of Michigan | 658,974 | 646,712 |
| Due from County | - | - |
| Inventory of food and other supplies | 115,994 | 110,891 |
| Prepaid expenses | <u>147,639</u> | <u>122,038</u> |
| TOTAL CURRENT ASSETS | <u>7,432,685</u> | <u>7,886,677</u> |
| Noncurrent Assets: | | |
| Capital assets, net | <u>6,981,557</u> | <u>6,085,357</u> |
| TOTAL ASSETS | <u>14,414,242</u> | <u>13,972,034</u> |
| LIABILITIES | | |
| Current Liabilities: | | |
| Accounts payable | 397,995 | 180,626 |
| Accrued salaries and wages | 71,842 | 243,303 |
| Accrued sick and vacation pay | 407,363 | 375,876 |
| Payroll and withheld taxes | 5,204 | 64,727 |
| Medicaid interim payments | 654,831 | 564,607 |
| Resident trust funds | <u>3,822</u> | <u>3,722</u> |
| TOTAL LIABILITIES | <u>1,541,057</u> | <u>1,432,861</u> |
| NET ASSETS | | |
| Invested in capital assets | 6,981,557 | 6,085,357 |
| Unrestricted | <u>5,891,628</u> | <u>6,453,816</u> |
| TOTAL NET ASSETS | <u>\$ 12,873,185</u> | <u>\$ 12,539,173</u> |

The accompanying notes to financial statements are an integral part of this statement.

Houghton County Medical Care Facility
Statement of Revenues, Expenses and Changes in Net Assets
For the years ended September 30, 2004 and 2003

| | 2004 | 2003 |
|---|----------------------|----------------------|
| OPERATING REVENUES: | | |
| Net patient service revenues | \$ 11,294,600 | \$ 11,392,704 |
| Other operating revenues | 20,654 | 23,768 |
| TOTAL OPERATING REVENUES | 11,315,254 | 11,416,472 |
| OPERATING EXPENSES: | | |
| General and administrative | 3,379,922 | 3,388,927 |
| Maintenance | 873,547 | 791,689 |
| Laundry | 297,847 | 273,615 |
| Housekeeping | 422,637 | 431,625 |
| Dietary | 1,160,843 | 1,108,816 |
| Pharmacy | 52,880 | 56,915 |
| Nursing | 5,015,613 | 4,775,983 |
| Social services | 111,004 | 102,468 |
| Physical therapy | 253,708 | 253,369 |
| Occupational therapy | 230,147 | 220,258 |
| Vehicles | 10,161 | 7,123 |
| Professional services | 26,035 | 26,867 |
| Other expense | 17,181 | 19,303 |
| Provision for bad debt | - | 50,000 |
| Provision for depreciation | 497,697 | 371,970 |
| TOTAL OPERATING EXPENSES | 12,349,222 | 11,878,928 |
| INCOME (LOSS) FROM OPERATIONS | (1,033,968) | (462,456) |
| NONOPERATING REVENUES (EXPENSES): | | |
| Property taxes and other | 1,332,047 | 1,301,044 |
| Private contributions | 6,285 | 5,750 |
| Other | 347 | 73 |
| Proportionate share reimbursement, net of intergovernmental transfer expense | 490,175 | 344,833 |
| Maintenance of effort | (460,874) | (532,426) |
| TOTAL NONOPERATING REVENUES (EXPENSES) | 1,367,980 | 1,119,274 |
| CHANGE IN NET ASSETS | 334,012 | 656,818 |
| Net assets, beginning of year | 12,539,173 | 11,985,789 |
| Prior period adjustment | - | (103,434) |
| Net assets, beginning of year, as restated | 12,539,173 | 11,882,355 |
| NET ASSETS, END OF YEAR | \$ 12,873,185 | \$ 12,539,173 |

The accompanying notes to financial statements are an integral part of this statement.

Houghton County Medical Care Facility
Statements of Cash Flows
For the years ended September 30, 2004 and 2003

| | 2004 | 2003 |
|---|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net cash received from fees and charges for services | \$ 11,604,150 | \$ 11,328,919 |
| Other operating revenues | 20,654 | 23,768 |
| Cash payments to employees for services | (7,185,710) | (6,734,800) |
| Cash payments for payroll taxes | (590,071) | (507,313) |
| Cash payments to suppliers for goods and services | (4,088,576) | (4,246,932) |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | <u>(239,553)</u> | <u>(136,358)</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES: | | |
| Cash received from property and other taxes | 1,563,642 | 1,091,505 |
| Cash received from proportionate share reimbursement, net of intergovernmental transfers | 490,175 | 344,833 |
| Cash received from contributions and other sources | 6,632 | 5,823 |
| Cash payments for County maintenance of effort | (460,874) | (532,426) |
| NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES | <u>1,599,575</u> | <u>909,735</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | |
| Cash payments for capital assets | (1,393,897) | (1,477,837) |
| NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES | <u>(1,393,897)</u> | <u>(1,477,837)</u> |
| Net increase (decrease) in cash and cash equivalents | (33,875) | (704,460) |
| Cash and cash equivalents, beginning of year | <u>5,413,504</u> | <u>6,117,964</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR | <u>\$ 5,379,629</u> | <u>\$ 5,413,504</u> |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES: | | |
| Operating income (loss) | \$ (1,033,968) | \$ (462,456) |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | |
| Depreciation | 497,697 | 371,970 |
| (Increase) decrease in assets: | | |
| Accounts receivable | 231,588 | (170,625) |
| Due from State | (12,262) | 279,870 |
| Inventory | (5,103) | (4) |
| Prepaid expenses | (25,601) | (7,651) |
| Increase (decrease) in liabilities: | | |
| Accounts payable | 217,369 | (55,100) |
| Accrued wages | (171,461) | 7,230 |
| Accrued sick and vacation pay | 31,487 | 22,896 |
| Accrued payroll and withholding taxes | (59,523) | 542 |
| Medicaid interim payments | 90,224 | (123,030) |
| NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | <u>\$ (239,553)</u> | <u>\$ (136,358)</u> |

The accompanying notes to financial statements are an integral part of this statement.

Houghton County Medical Care Facility
Notes to Financial Statements
September 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Houghton County Medical Care Facility conform to generally accepted accounting principles as applicable to governments in the United States of America. The following is a summary of the more significant policies:

(1) Fund Accounting - Houghton County Medical Care Facility Enterprise Fund is a distinct entity and, accordingly, consists of a separate set of self-balancing accounts comprised of the Facility's assets, liabilities, net assets, revenues and expense accounts. The Houghton County Medical Care Facility Fund is defined under generally accepted terminology as a proprietary enterprise fund and is reported as such in the County of Houghton, Michigan's financial statements. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises with the intent of the governing body being that costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

(2) Basis of Accounting - Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. All proprietary funds are accounted for using the accrual basis of accounting. Under the accrual basis, revenues are recognized when they are earned and expenses are recognized when incurred.

(3) Mission Statement and Nonoperating Revenues and Expenses - The Facility's primary mission is to provide skilled nursing services through its facility. Only those activities directly associated with the furtherance of this purpose are considered to be operating activities.

Other activities that result in revenues or expenses unrelated to the Facility's primary mission are considered to be nonoperating. Nonoperating revenues and expenses include property taxes, county appropriations, maintenance of effort, private contributions, rent, proportionate share reimbursement, and other revenue.

(4) Cash and Cash Equivalents - Cash balances of the Facility are combined with other County funds and invested by the County Treasurer to the extent available in demand and savings accounts, certificates of deposit maturing in less than three months, and other authorized investments. Investments are stated at cost, which approximates market value.

(5) Inventory - Inventory is valued at the lower of cost, (first-in, first-out) or market. Inventory consists of expendable supplies held for consumption.

Houghton County Medical Care Facility
Notes to Financial Statements
September 30, 2004

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

(6) Land, Buildings, and Equipment - Land, buildings, and equipment (capital assets) relating to the operations of the Facility are recorded at cost and accounted for in the Houghton County Medical Care Facility Enterprise Fund. Depreciation on such capital assets is charged as an expense against the operations of the Facility using straight-line depreciation. Depreciation rates are designed to amortize the cost of the assets over their estimated useful lives ranging from 3 to 40 years.

(7) Board-Designated Assets - Certain investments of the Unrestricted Fund have been internally designated by the Board of Trustees for the funding of plant replacement, expansion and other specified projects and to pay future claims under the County of Houghton's self-insured worker's compensation plan.

(8) Property Taxes - Property taxes levied attach as an enforceable lien on property. Taxes are levied on December 1 and are payable before March 1 of the subsequent year. The County Facility tax is collected by the various local tax collecting units (townships, cities, etc.) and are recognized as revenue in the year in which payment is due. Taxes receivable are recorded when levied, as the legal right to receive exists.

(9) Gifts, Grants, and Bequests - Unrestricted gifts, grants and bequests are recorded at fair market value at the date of receipt and recognized as non-operating revenues, except where the donor has restricted its use. Restricted donations are credited directly to the appropriate restricted fund balance. Donations restricted for operating purposes are recognized as operating income as expenditures are made for the purpose designated by the donor. Donations restricted for additions to property, plant, and equipment are recognized in the Unrestricted Fund as the funds are expended.

(10) Use of Estimates - The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

(11) Concentration of Credit Risk - The Facility provides long-term care nursing services to residents of Houghton and Keweenaw Counties. The majority of the Facility's residents are eligible for Medicaid, Medicare, or another insurance. The Facility does, however, grant credit to residents who are ineligible for third-party insurance. The Facility has not experienced any significant losses from uncollectible accounts.

Houghton County Medical Care Facility
Notes to Financial Statements
September 30, 2004

NOTE B - NET PATIENT SERVICE REVENUES:

Patient service revenue is reported at the estimated net realizable amounts from residents, third-party payors, and others for service rendered. Revenue under third-party payor agreements is subject to audit and retroactive adjustment. Provisions for estimated third-party payor settlements are provided in the period the related services are rendered. Differences between the estimated amounts accrued and interim and final settlements are reported in operations in the year of settlement.

Revenues have been reduced by \$1,579,348 and \$779,327 in 2004 and 2003, respectively, to reflect estimated amounts to be realized from third-party payors.

NOTE C - ACCUMULATED SICK AND VACATION LEAVE BENEFITS:

Employees' accrued sick pay is accumulated for all permanent full-time employees at a rate of one-half (1/2) day per bi-weekly pay period, provided the employee is in paid status for eighty percent (80%) of the regular pay period, including unworked paid holidays, paid vacations, and paid leaves. One-half (1/2) of the accumulated sick leave is paid to separated employees at current rates of pay (1) when an employee retires upon reaching the age of sixty (60) years or, (2) upon death while employed at the Facility, one-half (1/2) of the accumulated sick leave will be paid to the designated beneficiary at the employee's rate of pay at the time of death. Accumulated sick pay as of September 30, 2004 and 2003 amounted to \$165,971 and \$134,017 respectively.

Employees' accrued vacation pay is accumulated for all permanent employees at a rate of one-half (1/2) day per bi-weekly pay period, provided the employee is in paid status for eighty percent (80%) of the regular pay period. Bonus annual leave days are earned and credited to an employee in the first pay period in the month on which the anniversary date falls as follows:

1. An additional three (3) days after five (5) years of employment.
2. An additional two (2) days after ten (10) years of employment.
3. An additional two (2) days after fifteen (15) years of employment.
4. An additional two (2) days after twenty (20) years of employment.
5. An additional two (2) days after twenty-five (25) years of employment.

Houghton County Medical Care Facility
Notes to Financial Statements
September 30, 2004

NOTE C - ACCUMULATED SICK AND VACATION LEAVE BENEFITS (Continued):

For employees with dates of hire after September 26, 1998, the following restructure of earned annual time would apply. Full and part-time employees would earn on a pro-rated system that will use all hours paid in a pay period up to a maximum of 80 hours to calculate earned benefits. Bonus annual will be built into the rates as years of service increase.

| Years of Employment | Maximum Hours of Annual Leave |
|--|----------------------------------|
| Beginning through Year one (1) | 40 |
| Beginning Year two (2) through Year five (5) | 80 |
| Beginning Year six (6) through Year ten (10) | 128 |
| Beginning Year eleven (11) through Year fifteen (15) | 144 |
| Beginning Year sixteen (16) through Year twenty (20) | 160 |
| Beginning Year twenty-one (21) through Year twenty-five (25) | 176 |
| Beginning Year twenty-six (26) and thereafter | 192 |

Annual leave may be accumulated to thirty (30) days and shall be paid at current rates to separated employees. The accumulated vacation pay as of September 30, 2004 and 2003 amounted to \$241,392 and \$241,859 respectively.

NOTE D - RETIREMENT PLAN:

The Facility has in effect a defined benefit non-contributory retirement plan with the Travelers Insurance Company covering substantially all full-time employees. The total retirement expense for the year ended September 30, 2004 and 2003 was \$572,515 and \$707,149, respectively, and includes amortization of past service costs, which are being amortized over a ten year period. The Facility makes annual contributions to the plan as determined by consulting actuaries. The payroll for participating employees for the year ended September 30, 2004 was \$6,598,757, while total payroll expense was \$7,045,736.

Pension Disclosure Information

The Pension Benefit Obligation (PBO) is the actuarial present value of credited projected benefits determined in accordance with the projected unit credit cost method prorated by service. It is a standardized disclosure measure of the present value of pension benefits adjusted for the effects of projected salary increases and any step-rate benefits estimated to be payable in the future as a result of employee service to date. This measure is independent of the actuarial funding method used to determine contributions.

Houghton County Medical Care Facility
Notes to Financial Statements
September 30, 2004

NOTE D - RETIREMENT PLAN (Continued):

The last actuarial valuation date available to determine the PBO is January 1, 2004. Actuarial assumptions used to compute the PBO are as follows:

A. Actuarial Cost Methods - Retirement benefits, vesting, and pre-retirement survivor benefits calculated using the frozen initial liability cost method, with the initial employer liability equal to the January 1, 1974 unfunded employer past service liability based on the entry age normal method. If, in any year, the normal operation of this funding method would produce an unfunded frozen initial liability which is negative, it shall be deemed to be zero.

B. Valuation Assumptions:

1. Interest - 7.5%
2. Expenses and contingencies - 5.0%
3. Retirement age - The greater of normal retirement age specified in the plan or attained age.
4. Normal form of retirement annuity - single life annuity.
5. Mortality - 1983 Group Annuity Table (male and female tables).
6. Turnover - Allowance is made for turnover among eligible employees through the use of Travelers' Turnover Schedule C.
7. Projected salary increases - increases of 5.0% per year are assumed.
8. Pre-retirement survivor benefit - All participants are assumed to be married to an eligible spouse. Male spouses are assumed to be three years older than their female spouses.
9. Cost of Living - IRC Section 415 limits on salary and benefits are assumed to increase 3.0% per annum.

C. Asset Value:

Experience Rating Accumulation - The asset value equals the balance as of the valuation date in the fixed account, which is available to provide benefit payments and expenses. Contributions received after the valuation date but within the allowable grace period that were intended for plan years ending prior to the valuation date are included in this asset value.

Houghton County Medical Care Facility
Notes to Financial Statements
September 30, 2004

NOTE D - RETIREMENT PLAN (Continued):

Annual Pension Cost and Net Pension Obligation as of January 1, 2004:

| | |
|--|----------------|
| Annual required contribution, beginning January 1, 2003 | \$758,330 |
| Interest on net pension obligation as of January 1, 2003 | - |
| Adjustment to annual required contribution beginning January 1, 2003 | - |
| Annual pension cost, beginning January 1, 2003 | <u>758,330</u> |
| Contributions made, beginning January 1, 2003 | <u>758,330</u> |
| Increase (decrease) in net pension obligation as of January 1, 2004 | - |
| Net pension obligation as of January 1, 2003 | <u>*-</u> |
| Net Pension Obligation as of January 1, 2004 | <u>\$ -</u> |

- Based on the assumption that "actuarially required contributions" were made each year starting with the year beginning January 1, 1987 and ending with the year beginning January 1, 1996.

**Analysis of Funding Progress
Three-Year Trend Information**

| Actuarial Valuation Date | Actuarial Accrued Liability (AAL)-Entry Age (a) | Actuarial Value of Assets (b) | Unfunded AAL (UAAL) (a) - (b) | Funded Ratio (b/a) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((a-b)/c) |
|--------------------------------|--|--|--|--------------------------|---------------------------|---|
| 1/01/02 | \$10,916,196 | \$10,445,677 | \$470,519 | 95.69% | \$5,711,040 | 8.24% |
| 1/01/03 | 11,923,086 | 11,293,462 | 629,624 | 94.72 | 6,171,387 | 10.20 |
| 1/01/04 | 12,669,590 | 12,269,131 | 400,459 | 96.84 | 6,598,757 | 6.07 |

**Schedule of Employer Contributions
Three-Year Trend Information**

| Year Beginning 1/1 | Annual Pension Cost | Percentage Contributed | Net Pension Obligation at Year End |
|-----------------------|------------------------|---------------------------|--|
| 2001 | \$575,070 | 100% | \$0 |
| 2002 | 590,479 | 100% | 0 |
| 2003 | 758,330 | 100% | 0 |

Houghton County Medical Care Facility
Notes to Financial Statements
September 30, 2004

NOTE E - PURCHASE AND REPLACEMENT OF ASSETS:

The Facility has customarily funded depreciation by internally segregating cash and a portion of fund balance equal to the annual depreciation of the assets. The funded depreciation is used to provide for future asset purchases and replacement. An analysis of the activity in the internally designated fund balance-purchase and replacement of assets account is as follows:

| | <u>2004</u> | <u>2003</u> |
|---------------------------------|--------------------|--------------------|
| Balance, October 1 | \$1,983,057 | \$2,759,919 |
| Funding Provision | 1,003,542 | 716,803 |
| Asset and replacement purchases | <u>(1,170,707)</u> | <u>(1,493,665)</u> |
| Balance, September 30 | <u>\$1,815,892</u> | <u>\$1,983,057</u> |

NOTE F - LAND, BUILDINGS AND EQUIPMENT:

Capital assets relating to the Medical Care Facility (Enterprise Fund) are recorded at cost and accounted for in this fund. Depreciation on such capital assets is charged as an expense against operations of the fund on a straight-line basis. For the years ended September 30, 2004 and 2003 depreciation expense of \$497,697 and \$371,970, respectively, has been included in the operating expenses of the Facility.

A summary of the capital assets of the Facility is as follows:

| | <u>2004</u> | <u>2003</u> |
|-------------------------------|--------------------|--------------------|
| Land and improvements | \$13,827 | \$13,827 |
| Buildings | 10,446,861 | 6,836,363 |
| Fixed equipment | 697,421 | 691,803 |
| Major movable equipment | 2,009,869 | 2,009,869 |
| Work in progress | <u>53,728</u> | <u>2,275,947</u> |
| | 13,221,706 | 11,827,809 |
| Less accumulated depreciation | <u>(6,240,149)</u> | <u>(5,742,452)</u> |
| Net investment | <u>\$6,981,557</u> | <u>\$6,085,357</u> |

Houghton County Medical Care Facility
Notes to Financial Statements
September 30, 2004

NOTE F - LAND, BUILDINGS AND EQUIPMENT (Continued):

A summary of the changes in the land, buildings, and equipment is as follows:

| | Balance <u>9/30/03</u> | <u>Additions</u> | <u>Disposals</u> | Balance <u>9/30/04</u> |
|-----------------------|---------------------------|--------------------|---------------------|---------------------------|
| Land and improvements | \$ 13,827 | \$ - | \$ - | \$ 13,827 |
| Buildings | 6,836,363 | 3,610,498 | - | 10,446,861 |
| Fixed equipment | 691,803 | 5,618 | - | 697,421 |
| Movable equipment | 2,009,869 | - | - | 2,009,869 |
| Work in progress | <u>2,275,947</u> | <u>1,388,279</u> | <u>3,610,498</u> | <u>53,728</u> |
| TOTALS | <u>\$11,827,809</u> | <u>\$5,004,395</u> | <u>\$ 3,610,498</u> | <u>\$13,221,706</u> |

NOTE G - WORKER'S COMPENSATION SELF-INSURANCE:

The Facility participates in Houghton County's self-insured worker's compensation plan. The County is self-insured to a maximum limit of \$300,000 - \$350,000 for each occurrence. After the specific limit is reached, a statutory coverage is in place.

As a result of this insurance contract, the Facility has internally designated cash and a portion of fund balance in the amounts of \$387,500 and \$285,000 for 2004 and 2003, respectively, for the payment of future worker's compensation claims. The self-insurance plan is being administered by Citizens Management.

NOTE H - PROPORTIONATE SHARE REIMBURSEMENT REVENUE:

The Michigan Department of Community Health, in order to provide continuing access to long-term care services for Medicaid recipients, modified it's reimbursement system to participate in a "proportionate share" pool to qualified long-term care providers. Under such plan the system maximizes the federal Medicaid matching revenues through the intergovernmental transfer program. The Facility participates in this program to the extent of its share of Medicaid utilization in relation to the total for Class III Facilities that are governmentally owned.

NOTE I - APPROPRIATIONS FROM COUNTY OF HOUGHTON/MAINTENANCE OF EFFORT:

The State of Michigan, under Public Act 35, established its method of reimbursing county-owned medical care facilities for Medicaid patient days. Under the provisions of the Act, the County of Houghton is required to reimburse the State for a portion of each day of care provided to Medicaid patients at the Facility. No appropriations from the County of Houghton were required to reimburse the State of Michigan in either 2004 or 2003. Property taxes levied by the facility are used to reimburse the State, and were sufficient in both 2004 and 2003.

Houghton County Medical Care Facility
Notes to Financial Statements
September 30, 2004

NOTE J - DEPOSITS:

Deposits

At September 30, 2004, cash was classified as follows in the Facility's statement of net assets:

| | |
|----------------------------------|--------------------|
| Cash and cash equivalents | \$3,176,237 |
| Internally Designated Cash: | |
| Replacement of capital assets | 1,815,892 |
| Workers compensation contingency | 387,500 |
| Resident trust – cash | <u>3,822</u> |
| TOTAL | <u>\$5,383,451</u> |

At September 30, 2004, cash consisted of the following:

| | |
|---------------------------------|--------------------|
| Cash in banks | \$3,641 |
| Imprest cash on hand | 931 |
| Cash held with County Treasurer | 5,341,379 |
| Cash held by fiscal agents | <u>37,500</u> |
| TOTAL | <u>\$5,383,451</u> |

Cash held with the County Treasurer is pooled with the cash of several other funds of the County. The portion of the \$5,341,379 book balance insured by the Federal Deposit Insurance Corporation (FDIC) under regulation 330.8 is disclosed in accordance with Governmental Accounting Standards Board Statement #3 in the September 30, 2004 combined annual financial statements for the County of Houghton, Michigan.

The Medical Care Facility also has bank accounts segregated from the County with a book balance of \$3,641. The bank balance was \$254,643 of which \$103,358 was insured by the FDIC under Regulation 330.8. This regulation in summary provides that deposits of a governmental unit are insured for the lesser of the amount of the combined deposit or \$100,000 in every financial institution that is not a branch location that is a member of the FDIC in the following deposit accounts.

1. All demand, non-interest bearing accounts in the name of the authorized or statutory custodian of public funds.
2. All savings deposits which include regular passbook, daily interest savings and time certificates of deposit in the name of the governmental unit's custodian.
3. Each bookholder is insured pro-rata for the lesser of the amount on deposit in the debt retirement account or \$100,000. Each separate debt issue or debt series is similarly insured.

Houghton County Medical Care Facility
Notes to Financial Statements
September 30, 2004

NOTE J – DEPOSITS (Continued):

4. The demand accounts and savings accounts as defined in items 1 and 2 above for those bank accounts in the name of a specific fund when all of the following criteria are applicable.
 - a. The fund is created by a specific State statute.
 - b. The functions of the fund are specified by State statute.
 - c. Money is allocated by State statute for the exclusive use of that fund and statutory function.

NOTE K - DEFERRED COMPENSATION PLAN:

The Facility offers its employees a deferred compensation plan in accordance with Section 457 of the Internal Revenue Code. The plan, available to substantially all employees, permits them to defer a portion of their current salary until future years. The deferred compensation is not available to the employees until termination, retirement, death or unforeseeable emergency.

Due to changes in the Internal Revenue Code, the plan's assets are considered to be property of the plan's participants and are no longer subject to the Facility's general creditors. The plan's participants have the right to designate how the funds will be invested. Accordingly, the Facility has no liability for losses under the plan. The plan's assets are held in trust for the exclusive benefit of the plan's participants and their beneficiaries.

NOTE L – CONSTRUCTION IN PROGRESS:

The Facility has continued construction of the Phase II Remodeling project for which the total project cost is estimated at \$3,625,000. The project is to be financed with current resources of the Facility. As of September 30, 2004, total construction costs placed into service were \$3,610,498 and construction costs incurred and reported in work in progress amounted to \$53,728.

OTHER FINANCIAL INFORMATION

Houghton County Medical Care Facility
Details of Operating Revenues
For the years ended September 30, 2004 and 2003

| | <u>2004</u> | <u>2003</u> |
|--------------------------------------|--------------------------|--------------------------|
| PATIENT SERVICE REVENUES: | | |
| Medicare | \$ 444,601 | \$ 584,628 |
| Medicaid | 10,998,666 | 10,546,963 |
| Hospice | 215,904 | 54,285 |
| Private insurance and self pay | 1,075,394 | 887,735 |
| Other counties | <u>139,383</u> | <u>98,420</u> |
| Gross patient service revenues | 12,873,948 | 12,172,031 |
| Less contractual adjustments | <u>(1,579,348)</u> | <u>(779,327)</u> |
| NET PATIENT SERVICE REVENUES | <u>\$ 11,294,600</u> | <u>\$ 11,392,704</u> |
| OTHER OPERATING REVENUES: | | |
| Canteen and pop sales | \$ 19,708 | \$ 22,980 |
| Other sales | <u>946</u> | <u>788</u> |
| OTHER OPERATING REVENUES | <u>\$ 20,654</u> | <u>\$ 23,768</u> |

Houghton County Medical Care Facility
Details of Operating Expenses
For the years ended September 30, 2004 and 2003

| | <u>2004</u> | <u>2003</u> |
|------------------------------------|---------------------|---------------------|
| General and Administrative: | | |
| Salaries and wages | \$ 354,477 | \$ 339,157 |
| Payroll taxes | 530,205 | 507,855 |
| Hospitalization and life insurance | 1,373,675 | 1,214,819 |
| Retirement | 572,515 | 707,149 |
| Other fringe benefits | 6,074 | 6,216 |
| Worker's compensation insurance | 309,715 | 276,179 |
| Unemployment compensation | 13,674 | 7,425 |
| Office supplies and expense | 31,898 | 34,733 |
| Contractual services | 56,513 | 73,411 |
| Memberships and subscriptions | 25,125 | 24,954 |
| Telephone | 20,329 | 20,234 |
| Travel | 8,859 | 11,016 |
| Insurance and bonds | 72,810 | 156,733 |
| Equipment repair | 885 | 341 |
| Equipment rental | 1,605 | 1,368 |
| Other expense | 1,563 | 7,237 |
| Employee training and improvement | <u>-</u> | <u>100</u> |
| TOTAL | <u>\$ 3,379,922</u> | <u>\$ 3,388,927</u> |
| Maintenance: | | |
| Salaries and wages | \$ 347,260 | \$ 341,218 |
| Repair and maintenance | 77,550 | 72,661 |
| Contractual services | 49,177 | 61,949 |
| Utilities | <u>399,560</u> | <u>315,861</u> |
| TOTAL | <u>\$ 873,547</u> | <u>\$ 791,689</u> |
| Laundry: | | |
| Salaries and wages | \$ 277,724 | \$ 253,318 |
| Supplies | 11,909 | 10,026 |
| Bedding and linen | 8,214 | 10,259 |
| Equipment repair and maintenance | <u>-</u> | <u>12</u> |
| TOTAL | <u>\$ 297,847</u> | <u>\$ 273,615</u> |

Houghton County Medical Care Facility
Details of Operating Expenses
For the years ended September 30, 2004 and 2003

| | <u>2004</u> | <u>2003</u> |
|------------------------------------|---------------------|---------------------|
| Housekeeping: | | |
| Salaries and wages | \$ 370,766 | \$ 366,452 |
| Janitorial supplies | <u>51,871</u> | <u>65,173</u> |
| TOTAL | <u>\$ 422,637</u> | <u>\$ 431,625</u> |
| Dietary: | | |
| Salaries and wages | \$ 686,457 | \$ 656,002 |
| Food | 418,426 | 410,140 |
| Kitchen supplies | 51,294 | 40,604 |
| Repair and maintenance | <u>4,666</u> | <u>2,070</u> |
| TOTAL | <u>\$ 1,160,843</u> | <u>\$ 1,108,816</u> |
| Pharmacy: | | |
| Drugs and pharmaceuticals | \$ 45,380 | \$ 48,905 |
| Consultants | <u>7,500</u> | <u>8,010</u> |
| TOTAL | <u>\$ 52,880</u> | <u>\$ 56,915</u> |
| Nursing: | | |
| Salaries and wages | \$ 4,545,826 | \$ 4,356,331 |
| Medical supplies | 16,404 | 11,673 |
| Other supplies | 391,643 | 354,988 |
| Labs and X Rays | 18,023 | 14,140 |
| Contractual services - consultants | 33,808 | 32,514 |
| Repair and maintenance | 455 | 867 |
| Other expense | <u>9,454</u> | <u>5,470</u> |
| TOTAL | <u>\$ 5,015,613</u> | <u>\$ 4,775,983</u> |
| Social Services: | | |
| Salaries and wages | <u>\$ 111,004</u> | <u>\$ 102,468</u> |
| TOTAL | <u>\$ 111,004</u> | <u>\$ 102,468</u> |

Houghton County Medical Care Facility
Details of Operating Expenses
For the years ended September 30, 2004 and 2003

| | <u>2004</u> | <u>2003</u> |
|--------------------------------------|-------------------|-------------------|
| Physical Therapy: | | |
| Salaries and wages | \$ 129,543 | \$ 136,613 |
| Supplies | 9,224 | 3,809 |
| Consultants and contractual services | <u>114,941</u> | <u>112,947</u> |
| TOTAL | <u>\$ 253,708</u> | <u>\$ 253,369</u> |
| Occupational Therapy: | | |
| Salaries and wages | \$ 222,679 | \$ 213,367 |
| Supplies | <u>7,468</u> | <u>6,891</u> |
| TOTAL | <u>\$ 230,147</u> | <u>\$ 220,258</u> |
| Vehicles: | | |
| Gas, oil and grease | \$ 5,737 | \$ 5,150 |
| Operating supplies | 533 | 1,067 |
| Repair and maintenance | <u>3,891</u> | <u>906</u> |
| TOTAL | <u>\$ 10,161</u> | <u>\$ 7,123</u> |
| Professional Services: | | |
| Physicians | <u>\$ 26,035</u> | <u>\$ 26,867</u> |
| Other Expenses: | | |
| Canteen | \$ 16,792 | \$ 18,384 |
| Miscellaneous | <u>389</u> | <u>919</u> |
| TOTAL | <u>\$ 17,181</u> | <u>\$ 19,303</u> |
| Provision for Depreciation | <u>\$ 497,697</u> | <u>\$ 371,970</u> |
| Provision for Bad Debts | <u>\$ -</u> | <u>\$ 50,000</u> |

SUPPLEMENTAL REPORTS



ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

JOHN W. BLEMBERG, CPA

ROBERT J. DOWNS, CPA, CVA

DANIEL E. BIANCHI, CPA

MICHIGAN
ESCANABA
IRON MOUNTAIN
KINROSS
MARQUETTE

WISCONSIN
GREEN BAY
MILWAUKEE

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Houghton County Family Independence Agency

We have audited the statement of net assets of the Houghton County Medical Care Facility, an enterprise fund of the County of Houghton, as of September 30, 2004 and 2003, and the related statement of revenues, expenses and changes in net assets and statement of cash flows for the years then ended, and have issued our report thereon dated November 18, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Houghton County Medical Care Facility's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Houghton County Medical Care Facility's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Board of Directors
Houghton County Family Independence Agency

This report is intended solely for the information and use of the Board and management of the Houghton County Medical Care Facility, and other federal and state audit agencies and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company, PLC
Certified Public Accountants

November 18, 2004